

Minutes  
The Arkansas Local Police and Fire Retirement System Board of Trustees  
Quarterly Meeting

The Arkansas Local Police and Fire Retirement System Board of Trustees met on Thursday, June 4, 2015 in the LOPFI office located at 620 W. 3<sup>rd</sup>, Suite 200, Little Rock, Arkansas.

Members Present: Mayor Mike Gaskill, Employer Trustee, Chairman  
Terry Henson, Fire Employee Trustee, Vice-Chairman  
John Neal, Retired Fire Employee Trustee  
Catherine Cook, Employer Trustee  
Bev Lambert, Public Trustee  
Tim Hill, Retired Police Employee Trustee  
J. Scott Baxter, Police Employee Trustee

Staff Present: David Clark, Executive Director  
Tracy Warfe, Assistant Director  
Jen Sines, Secretary to the Board  
Tiffiney Lewis, Secretary to the Board

Chairman Gaskill called the meeting to order at 10:00 a.m. and recognized a quorum and notification of the news media.

Notice of Reappointment

Mr. Clark stated that he wanted to make notice of the reappointment of two (2) Trustees, Chairman Gaskill and Mr. Lambert.

Approval of minutes

Mr. Lambert made a motion, seconded by Mr. Neal, to approve the March 5, 2015 minutes and the May 19, 2015 Audit Committee minutes. The motion passed unanimously.

2015 Legislative Session update

Mr. Clark reviewed the following bills from the 2015 Legislative Session:

- SJR 10 – constitutional amendment proposal to increase the allowable millage for police and fire costs from 1 mil to 2 mil. Legislature decided to not refer this to the voters.
- SB 149 – bill proposing to add an additional section of code regarding physical fitness testing requirements for firefighters. This bill died in a Senate Committee upon adjournment.
- HB 1054 –bill that could affect how executive sessions are held. This bill was moved to Interim Study.
- HB 1204 – bill that would allow LOPFI DROP monies to be left on account. This bill died in a House Committee upon adjournment.
- HB 1211 – bill that would allow up to 36 months of actual LOPFI volunteer service credit to be used towards LOPFI DROP eligibility. This is now Act 829 of 2015 effective July 22, 2015.
- HB 1215 – bill that would require adding an additional component to the way liabilities are measured for all pension systems of the state. This bill died in a House Committee upon adjournment.

- HB 1274 – bill that would amend a Claims Commission section of code to allow an additional payment of death benefits for firefighters who die in the line of duty from certain forms of cancer. This is now Act 341 of 2015 effective July 22, 2015.
- HB1851 – bill that amends the process used for appointments to the Boards of LOPFI and PRB. Candidates must be confirmed by Senate in order for the appointments to proceed. This is now Act 1100 of 2015 effective July 22, 2015.

#### Legal Update

Mr. Richard Ramsay, legal counsel for LOPFI, gave an update to the request to obtain a favorable Determination Letter from the Internal Revenue Service (IRS), which has been ongoing for several years. The IRS has put an emphasis on getting governmental plans qualified. LOPFI has submitted the application to the IRS who has made the decision that there needs to be several statutory changes in order for LOPFI to receive a favorable Determination Letter. Mr. Ramsay presented two (2) options for the Board:

1. Let the IRS give LOPFI the determination of not in compliance then the Board could appeal this decision.
2. Withdraw the application and resubmit it January 2016, the next filing cycle for governmental plans, and ask for an extension until the 2017 Legislative Session, where we would seek appropriate legislative changes.

Mr. Ramsay made the recommendation that the Board withdraw the application and resubmit January 2016. Mr. Ramsay also assured the Board that LOPFI is operating in compliance with the Internal Revenue Code (IRC). Mr. Henson made a motion, seconded by Ms. Cook, to withdraw the application and resubmit it with the January 2016 deadline. The motion passed unanimously.

#### Investment Consultant report

Mr. Larry Middleton, Stephens Inc., presented the first quarter investment report. He noted that LOPFI's unaudited total market value as of June 4, 2015, was \$1.639 billion. Mr. Middleton reported that it is anticipated that the government is likely to raise rates in the third or fourth quarter of 2015. The rate of return for this quarter for the equity portfolio alone was 2.7% as compared to the index which was 1.0%. LOPFI was at \$1.592 billion at the beginning of the quarter and ended the quarter at \$1.614 billion.

Mr. Middleton stated that LOPFI had an arrangement with Regions and Bank of New York for securities lending. As a result of the decline in the securities lending market, Stephens' recommendation is that LOPFI terminate the securities lending arrangement. Mr. Middleton advised that to do this, there will be a realized loss of approximately \$962,000 due to the Lehman bankruptcy. Chairman Gaskill inquired as to how much of a loss this would have been when it was originally presented to the Board. Mr. Middleton advised that at that time it would have been a \$6 million loss, which is quite a difference. Mr. Henson made a motion, seconded by Mr. Neal, to accept Stephens' recommendation. The motion passed unanimously.

Mr. Clark presented a Summary of the LOPFI Energy Upgrades. Mr. Clark first stated that Mr. Middleton has had a clear separation in the information gathering for the heating and air upgrades to ensure we avoid a conflict of interest. Mr. Clark presented two (2) proposals to:

1. Stay with the current HVAC vendor to install the new equipment and ongoing maintenance.
2. Contract with Middleton Heat and Air to install the new equipment and provide ongoing maintenance.

Mr. Clark recommended the Middleton proposal since the quality of their service is widely recognized. The extent of the upgrades should also ensure the LOPFI building has the

latest and most efficient equipment, which will result in significant energy savings. Mr. Neal made a motion, seconded by Mr. Lambert, to accept Mr. Clark's recommendation to contract with Middleton Heat and Air. The motion passed unanimously.

Mr. Clark reviewed the following additional building related items:

- A proposal to upgrade the building lighting to LED. Mr. Clark stated the proposed cost is \$69,665; however, the energy rebate will be around \$23,000. Mr. Henson made a motion, seconded by Mr. Hill, to update the lighting throughout the LOPFI building to LED. The motion passed unanimously.
- A low flow water aerators upgrade, which will have no cost to the system as the utility company provides the aerators and installation. The projected savings will be about \$886 a year. This item did not require approval.
- A proposal of \$42,100 for stamped concrete versus \$38,700 for relaying all brick walkways. This work is needed due to the deteriorating conditions of the walkways. Mr. Clark and building management recommend stamped concrete as it is a more permanent solution. Mr. Neal made a motion, seconded by Ms. Cook, to upgrade the LOPFI building brick walk-ways to stamped concrete. The motion passed unanimously.
- The last proposal was for a third party to perform parking lot maintenance. Mr. Clark proposed to simply continue with having building management perform parking lot maintenance and not pay another vendor to handle this work. It should be less costly and we can continue to keep the parking lot in good condition. Chairman Gaskill confirmed that that would be fine.

#### Audit Committee Report

Mr. Henson, Chairman of the Audit Committee, stated that the Audit Committee met on May 19, 2015. Mr. Henson confirmed that BKD CPAs & Advisors stated that it was a good clean audit and everything was in order. BKD also mentioned that the interaction with staff was quite accommodating and provided all needed information. Ms. Cook made a motion, seconded by Mr. Lambert, to accept the Audit. The motion passed unanimously.

#### Summary of 2014 actuarial valuations

Ms. Heidi Barry and Mr. David Hoffman, actuaries with Gabriel, Roeder, Smith, presented a summary of valuations as of December 31, 2014. Ms. Barry stated LOPFI assets as a whole increased from \$1.4 billion to \$1.6 billion; liabilities increased from \$2.1 billion to \$2.2 billion; and the funded percent increased from 67% to 70% for the total system. Mr. Clark reminded the Board that it was time to establish the required contribution rate for volunteer service which is currently \$5.60 per member per month. Mr. Clark's recommendation was for the rate to remain unchanged, which will provide some buffering from having rates decrease at this time to only possibly increase at a later time. Mr. Henson made a motion, seconded by Mr. Neal, to leave the required volunteer employer contribution rate the same for the 2016 year, i.e. at the current \$5.60 per member per month. The motion passed unanimously.

#### ASC report

Chairman Gaskill stated that the Administrative Service Committee (ASC) met this morning, June 4, 2015, at 9:00 a.m. Chairman Gaskill stated that the Executive Director received a very good review. The ASC made a recommendation to approve the Career Service Award for the Executive Director of 1.5% and to approve Mr. Clark's recommendation to allow an increase to the second level of the CFO salary range for the Accountant II who will be promoted to the CFO position later this year. Mr. Henson made a motion, seconded by Ms. Cook, to approve the ASC's recommendations. The motions were passed unanimously.

Review updates to Rules 3, 9, 32 and new Rule 35

Mr. Clark reviewed the following updates to the current Board Rules/new Board Rule:

- Rule 3 – This Rule covers the Remittance Process used by the covered employer groups. At the Board's September 2014 meeting, it was agreed to have all reporting locations transition to the use of e-Payment effective July 1, 2015. The change to this rule recognizes that decision.
- Rule 9 – This Rule discusses the eligibility and allocation of Premium Tax that employers use to defray a portion of their employer contribution costs. The change to this rule recognizes it will be several years after the 2016 Premium Tax allocation before all paid locations are at a single or uniform employer contribution rate.
- Rule 32 – This Rule covers the administration of the LOPFI DROP program. Act 829 of 2015 permits the use of up to 36 months of actual LOPFI volunteer service credit to be used towards DROP eligibility. The change to this rule recognizes the effect of this act.
- Rule 35 – This is a new Rule and is intended to assist with LOPFI's Determination Letter work with the IRS. The language in the Rule is a good-faith effort towards meeting the requirements the IRS has for considering the retirement system as being operated as a tax qualified trust.

Mr. Neal made a motion, seconded by Ms. Cook, to approve the Board Rule changes as well as the new Board Rule. The motion passed unanimously.

Financial statements

Chairman Gaskill stated the financial statements have been available in the Board Packets for review and shows the current assets, liabilities and that the System is in good shape. Mr. Baxter made a motion, seconded by Ms. Cook, to approve the March 2015 financial statements. The motion passed unanimously.

Chairman Gaskill recognized Mr. Neal. Mr. Neal stated that there needs to be better physical fitness requirements for police officers and firefighters during the hiring process and deferred to Mr. Ed Jaros, Arkansas Professional Fire Fighters Association for additional comments. Chairman Gaskill recognized Mr. Jaros who asked that LOPFI put in place standards for physical fitness requirements to protect the retirement system. Chairman Gaskill asked Mr. Ramsay to research this topic to see what authority the System currently has in law. Mr. Ramsay advised he would handle the research as discussed.

With no other business to discuss, Mr. Neal made a motion, seconded by Mr. Henson, to adjourn. The motion passed unanimously. The Board adjourned at 11:31 a.m.

Respectfully submitted,

Approved 9/03/15

Jen Sines  
Secretary to the Board